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THE ROLE OF NIGERIAN INVESTMENT PROMOTION COMMISSION (NIPC) IN ATTRACTING FOREIGN DIRECT INVESTMENT IN NIGERIA

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Abstract

This study examines the role of Nigerian Investment Promotion Commission (NIPC) in attracting Foreign Direct Investment (FDI) in Nigeria. Data for the study was collected from secondary sources to measure FDI inflow before the establishment of NIPC i.e. 1981-1995 and after the establishment of NIPC i.e. 1996-2010. Independent t Test was applied in analyzing the data. Findings from the result reveal that there is a significant correlation between the establishment of NIPC and an increase in FDI inflow. Secondly, the study finds that the average value of FDI inflows prior to the establishment of NIPC differed from the one after the establishment of NIPC. And lastly, the results revealed that NIPC had succeeded in influencing the growth of FDI in Nigeria. The study therefore recommends that government should pursue more credible and sound macroeconomic policies and provide conducive environment for the FDI to flourish.

Keywords: Investment Promotion Agencies (IPAs), Foreign Direct Investment (FDI), Nigerian investment promotion commission (NIPC).

1.Introduction

FDI is widely regarded as a potential source of funding for growth and development of the developing and developed nations. Consequently, strategies of attracting FDI turned out to be a heavily used approach of many governments across the world to boost their economies. As a result of this, many studies were devoted to the techniques of how best to do it. Most of the approaches recognized the necessity of improving the host countries' Micro-economic and Macro-economic indicators together with the liberalization of their economy in order to succeed (Blomstrom and Kokko, 2003). Such approach however, has not necessarily guaranteed anticipated success in attracting FDI.

The United Nation Industrial Development Organization (UNIDO, 2008), reported that the flow of foreign direct investment (FDI) globally reached an all time high of USD 1.3 trillion during the year 2000. Investment promotion agencies (IPAs) in many parts of the world, especially in the highly developed economies of Europe and North America, and also booming Asian economies of China, recorded high volumes of business and celebrated further success in attracting new investment to their countries (UNIDO, 2008). Most of this investment flow however, was concentrated in the highly developed areas of European Union, the United States of America and Japan which together accounted for 71% of world inflows of FDI (UNIDO, 2008). Consequently the African share of world investment fell from its previous 1% to a further low of a mere 0.67% (UNIDO, 2008). As a consequence, African countries were encouraged and supported to set up Investment Promotion Agencies (IPAs) so as to “market” their attractions and create a one-stop-shop and to smooth the pathway for incoming investors. (Asiedu, 2003), pointed out that even with her abundant natural resources and large market, the inflow of FDI in Nigeria has been a mediocre. As a comparison, in the year 2002, Nigeria with an estimated population of 120 million attracted FDI of USD 22 billion, while Malaysia with much fewer population and far less natural resources attracted FDI that almost tripled the Nigeria's figure of USD 22 billion – and not much has changed since then (UNIDO, 2008).

As a country desirous of improving its lot, Nigeria has also accepted the advice that she should more actively “market” herself to the international investment community. In doing this, she has created an Investment Promotion Agency, (Nigerian Investment Promotion Commission, (NIPC) to provide a “one-stop-shop” to smoothen the path and remove obstacles facing incoming investment. Nigeria also attempts to promote itself within the market place for FDI by urging her investment promotion agency (NIPC) to employ

techniques which could serve as investment incentives. Although, there is a vast body of literature on the FDI contribution to the nation's development, little is known about the role of NIPC in boosting FDI. This leaves a knowledge gap in the subject matter. It is upon this premise that this study is designed to fill this yawning intellectual gap in the body of knowledge, by investigating the role of NIPC in attracting FDI in Nigeria.

This issue is of great concern because any government who has the eagerness to attract foreign direct investment has to undertake specific type of marketing called investment promotion agencies (IPAs). Today's investment promotion is related to unprecedented growth of FDI in the last two decades, which becomes probably the most prominent source of private capital for developing countries and economies in transition (Wells and Wints, 2001).

To achieve the objective of this study, the paper is divided into seven sections. Apart from this introduction, section 2 deals with theoretical framework. Section 3 reviews the role of IPAs in encouraging inflow of foreign capital. Section 4 reviews the policies and approaches of attracting FDI. Section 5 present the methodology adopted in the study, while section 6 deals with the results and discussions. Finally, section 7 concludes the study and makes recommendations.

2.Theoretical Framework

The theoretical framework of investment promotion agency was built on the basis of government intervention in the economy. Investment promotion agency is a range of different activities, many of which resemble marketing, used by government in order to attract FDI. With these, there are two basic approaches, neoclassical approach and the interventionist approach (Trnik, 2007). The neoclassical view on investment promotion is built on the premise that if the host country secures a good investment climate, investors will automatically seeks out the most favorable investment opportunities. The interventionist view on investment promotion suggests that this is often not enough because of the existing market failure due to information gaps. Furthermore, within the second approach at least two contending views can be identified.

The interventionist approach is built on the assumption that investment promotion agency of a country demonstrates positive results in terms of attracting foreign investors. This assumption was validated by the research of this nature which tries to study the role of NIPC in attracting foreign investment. Secondly, investment promotion was simply viewed as a matter of marketing and studied in this specific context. That is to say, if a company wants to

sell its product it has to set some sort of marketing program to acquaint customers with its new product, tell them of its qualities and lastly construct a successful brand image. In the same way, most countries have to do some advertising if they want to attract potential investor's, most especially for FDI, which is usually meant for economic development purposes. The mainstream findings were by Trnik (2007) and Wendy (2009) that investment promotion agency played a significant role in attracting FDI.

3.The Role of IPAs in Attracting the Inflow of Foreign Capital (NIPC)

This section discusses the role of IPAs in encouraging inflow of foreign capital. The increasing efforts of developing economies to attract and stimulate investment have led, over the years, to the establishment of Investment Promotion Agencies (IPAs) or similar government institutions with the prime function of stimulating domestic investment and attracting foreign investment. Host government intervention in the operations of Multinational firms has been the focus of some studies, notably (Kim, 1987); Le Craw, (1983); and Poynter, (1982). Later studies however, paid much attention to the relationship between investment promotion and FDI inflow. Worthy of note in this regard is the work of several researchers such as Wendy (2009); Dees (1998); Romer (1990); Sagi (1999); heintz and sacz, (2008); Borenstern and lee (1998); Wells and Wint(2001) and Trnik, (2007).

Asiedu (2004) found that there was a general decline in Africa's foreign direct investments' global position despite the efforts of the countries in the continent. Morisset (2001) on the other hand, concluded that to improve the climate for foreign investment, an econometric analysis indicates that strong economic growth and aggressive trade liberalization can be used to fuel the inflow of FDI. Mali and Mozambique were cited as the two countries that have shown spectacular improvements in their business in the 1990s because of the implementation of few visible actions, which were essential in the strategy of attracting foreign investment. Asiedu and Gyimah-Brempong (2008) also concluded that liberalization of policies through IPAs has a significant and positive effect on foreign direct investment.

However, according to the Central Bank of Nigeria, CBN, FDI inflow to Nigeria has averaged about USD 1.184 billion per year since 1997, declining every year except for 2001 (Ibru, 2002). The study by Abeson and Taku (2007) showed that foreign firms in Nigeria between 1975 and 1985 experienced a high level of government intervention and that some companies pulled out of Nigeria because of this. The response of federal government to this

disturbing situation had led to a series of reforms one of which is the coming into being of NIPC as a one-stop shop investment centre. The Nigerian Investment Promotion Commission (NIPC) was created specifically for this purpose (NIPC, 2003).

One-stop shop centre (such as NIPC) is an investment facilitation mechanism where relevant government agencies are brought to one location, coordinated and streamlined to provide efficient and transparent services to investors. It shortens and simplifies administrative procedures for the issuance of business approvals, permits and licenses and company incorporation, thereby removing bottlenecks faced by investors in establishing and running business, and ultimately, reduces the cost of doing business in the country.

Furthermore, NIPC also has the responsibility to ensure the realization of the maximum benefits of the policies of liberalization and deregulation of the national economy. In fact, the policy priorities of the Presidency's office of investment include: "getting the 'right' processes and incentives in place for a competitive business climate" as well as removing administrative bottlenecks to encourage investment (UNCTAD, 2008).

In addition, NIPC provides statistical data and information on the Nigerian economy, good investment climate, legal and regulatory framework as well as sector and industry specific information to aid existing and prospective investors in making informed business decisions (NIPC, 2003). The commission is also expected to work unceasingly to improve the image of Nigeria globally with messages tailored to reduce negative perception about Nigeria.

4.Policies and Approaches of Attracting FDI in some Countries

The following discussions will focus on the policies and approaches of attracting FDI in Malaysia and Czech Republic. Since the 1980s, tremendous and divergent policies have been adopted by developing countries through the exploits of their investment promotion agency to promote FDI in their respective countries. This is simply due to the high optimism about the benefits brought by FDI through the MNCs. Malaysia and Czech Republic (IPAs) are good examples and shall therefore form the basis of our analysis.

Among the principles that Malaysia's Investment Development Agency (MIDA) have adopted is the openness of its economy, which welcomes investors and traders who are the future beneficiaries of both the Malaysian nation and the companies that are located therein. Other factor that attracts FDI in Malaysia includes its non-discriminatory principle with foreign investors, and had paid little or no attention to the political ideology of their home

countries. Furthermore, the industry in which they want to invest, the size of their operation and their choice of local partners have contributed significantly (Tahir, 1995; Siah-Lee 2000, cited by Malami (2007).

According to Siah-Lee (2000) cited by Malami (2007), personal promotion has been carried out by MIDA through trade and investment missions. In these missions, briefings on investment and trade are constantly conducted with the Government officials from foreign countries. In the non-personal promotion, according to Fong (1986) cited by Malami (2007), MIDA regularly publishes Malaysia's policies and changes within the economy in order to keep potential foreign investors up to date with the country's policies on FDI. The result of these approaches by MIDA has seen Malaysia's GDP per capita grow from 36% in the 1980s to 59% in the 1990s. New foreign and domestic investment played a significant role in the transformation of Malaysia's economy. Today, Malaysia is one of the world's largest exporters of semiconductor devices –electrical goods and appliance (Siah-Lee 2000).

The Czech Republic IPAs is the Czech Investment Agency (CIA). The CIA, from the beginning was aware that due to the small size of the Czech economy and being located in the least of Europe it is at a disadvantage position compared to many other countries of Europe – competition wise. According to UNCTAD (2007), CIA tries to regard both foreign and domestic private sectors businesses as the major economic agents whose national future assets lies on them and are its main determinants. As a result of the competitive environment in which CIA has to operate and survive, the agency employed different ways and methods in order to take care of its contemporary demands. The agency first introduced incentive –based approach to generate investment in Czech economy. This incentive-based approach comprises of non-tax incentives and the provision of real facilities.

Czech investment agency also employs the rule –based approach to promote investment. This rule-based approach is the rules and regulations domestically formulated in order to make the economy investment-friendly. Other approaches pursued by Czech investment agency are awareness-creating, service-providing, information - dissemination and participation in joint ventures. These multi-faceted approaches had been so successful that by 2005 Czech economy was also placed among the group of the twenty largest recipients of FDI in the world in the said 2005 (UNCTAD, 2007).

5. Methodology

This section deals with the method of data collection and the analytical technique.

a.) Sources of Data

The study relied on data and information from secondary sources. These secondary sources comprises of publications related to NIPC such as annual report, investor guide, Newsletter, Journals, Corporate Nigeria and official bulletin of Central Bank of Nigeria. Others include publications from National Bureau of Statistics and Federal Ministry of Commerce and Industry. Such data sources were used to review policies and activities related to FDI and the NIPC, which places this study within an existing context.

b.) Analytical Technique

This section explains the technique employed in data presentation and analysis. Foreign Direct Investment (FDI) Inflow would be use as a proxy to test the role played by Nigerian Investment Promotion Commission (NIPC) in attracting FDI. Furthermore, descriptive statistics were used i.e. simple percentage (%). All the data collected were presented in tabular form, comprising of frequencies, mean, simple variance, and simple standard deviation etc.

In analyzing the data, inferential statistics were used. Independent *t* test were employed using STATA version 9.1 to analyze the data. The independent T test was used to compare the FDI inflow before and after the establishment of NIPC. These enable the researcher to observe the performance of NIPC in attracting FDI. The independent *t* test is said to be a parametric method when certain assumptions are made about the parameters of population (population distribution), which the samples represent when testing hypothesis.

PHASE 1

It is assumed that the sample comes from a normally distributed population with a mean of a specific value and equal variance. The *t* test is obtained by the formula:

The basic formula for the sample variance is

$$S^2 = \frac{\sum (X - \bar{X})^2}{n-1}$$

The observed difference between means is converted into a value of *t* by

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\delta \sqrt{\bar{X}_1 - \bar{X}_2}}$$

The standard error of the difference between means is always designated by $\delta X_1 - X_2$ and would be calculated by the formula: $\delta \bar{X}_1 - \bar{X}_2 = \sqrt{\left(\frac{\delta^2}{n_1} + \frac{\delta^2}{n_2} \right)}$

Where:

$$\frac{\delta^2 = (n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$$

PHASE II

It is assumed that the sample comes from a normally distributed population with a mean of a specific value and unequal variance. The t test is obtained by the formula:

$$d.f = \frac{S_1^2/n_1 + S_2^2/n_2}{\left[\left(S_1^2/n_1 \right)^2 / (n_1 - 1) \right] + \left[\left(S_2^2/n_2 \right)^2 / (n_2 - 1) \right]}$$

6.Results and Discussions

Results of this study have been divided into two parts. The first part consists of descriptive results, and the second part contains the inferential result.

a.) Descriptive Result

The table (1) below presents the average of certain data of interest on FDI inflow before and after the establishment of NIPC. From the table, 15 observations were taken on FDI before and another 15 on FDI after the establishment of the NIPC. The average mean of FDI before the establishment of NIPC is 11.63, with the standard deviation of 19.994, while the minimum FDI inflow before the establishment of NIPC is 0.26 in 1983; the maximum inflow of FDI before the establishment of NIPC is 75.94 in 1995.

On the other hand, FDI inflows after the establishment of NIPC have the average mean of 342.2 with standard deviation of 253.4. The minimum inflow of FDI after the establishment of NIPC is 80.75 in 1998 while the maximum inflow of FDI after the establishment of NIPC is 759.38 in 2007. From the result, it could be concluded that the establishment of NIPC could be associated with the improvement of FDI inflows but, this

conclusion is however unwarranted because the average given in table (1) below involves no statistical test.

b.) Inferential Analysis using Independent t Test

In order to examine the role of NIPC in attracting FDI, FDI inflow was used as the basic data or variable for measuring NIPC performance.

Table (2) below presents the results of the two sample *t* test which shows that the *P* value is 0.0000 at 5% level of significance. Therefore, from the result the *P* value is less than α value i.e. 0.0000 is less than 0.05 when the difference is equal to zero. On the other hand, when the difference is greater than zero, the *P* value is greater than α i.e. 1.0000 is greater than 0.05. Based on the course of these findings, it shows that there is a positive relationship between NIPC and FDI i.e. NIPC has played a significant role in attracting FDI in Nigeria. This is in line with a priori expectation of this study. These results are in line with the findings of Trnik (2007) and Wendy (2009). They obtained similar results from their studies that Czech Investment Agency (CIA) played a significant role in attracting foreign Direct Investment in Czech economy.

Furthermore, the findings in this study agree with the findings of Tahir (1995) and Siah- Lee (2000) who argued that Malaysian Investment Development Agency (MIDA) plays a significant role in attracting FDI into the Malaysian economy. A similar study, related with our findings is that of Asiedu and Gyimah – Brempong (2008). In their study they pointed out that liberalization of policies through IPAs has a significant and positive effect on foreign investment.

In addition, the findings in this study are also in line with the findings of Tahir (1995) and Fong (1986). In their study which found that the MIDA has successfully attracted FDI into the Malaysian economy.

Moreover, the findings in this study are also similar to the results reported by UNCTAD (2007) that the multifaceted approaches used by CIA have been so successful that the Czech economy was placed among the group of the twenty largest recipients of FDI among European Countries.

Finally, the findings in this study also agree with the findings of Wells and Wint (2001) who opined that for any government to succeed in attracting FDI, it has to undertake specific type of marketing called Investment promotion.

However, Moran et al (1998) reported results that are different from the findings in this study. The study reported negative relationship between CIA and FDI inflows in Czech Republic. In a similar vein, the findings in this study contradicted the findings of Declan

(1999) who reported negative performance of CIA in attracting FDI to Czech economy. Declan (1999) opined that the negative performance recorded may be due to inadequate and ineffective regulatory framework and implementation problems. Finally, the findings in this study also disagree with the findings of Nelson (1998) who reports insignificance of CIA in attracting FDI, he further argued that the insignificance may be due to lack of clearly formulated mandate mainly because it was decree-based.

7.Conclusions and Recommendations

In conclusion, our analysis indicates that NIPC had succeeded in making Nigeria investment friendly by attracting FDI into the country. This is reflected in the increased FDI inflow to Nigeria for the 15 year period that was observed. The results also indicate that the role played by NIPC has significantly influenced the growth of FDI in Nigeria. Therefore, the study concluded that IPAs could play very significant role in attracting FDI, provided that, a country provides required data for investors, a good investment climate, adequate legal and regulatory framework etc.

This paper therefore recommends that the government should pursue more credible and sound macroeconomic policies and provide conducive environment for FDI to flourish. Furthermore, Nigerian government should also make efforts to strengthen the NIPC to become a major instrument or institution for attracting FDI in order to make the Nigerian economy the best emerging market in Africa. Finally, to solve operational problems faced by NIPC, there is the need for government to fund NIPC adequately, and also NIPC should be given full autonomy in the administration of the numerous incentives in order to encourage the inflow of FDI into Nigeria.

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Appendix

Table (1) : Summary of Data on FDI inflow (1981 to 2010)

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI Before Establishment of NIPC	15	11.63	19.994	0.26	75.94
FDI After Establishment of NIPC	15	342.2	253.4	80.75	759.38

Source: Author's Computation, (2010).

Table (2) : Independent T test Result.

NIPC	MEAN VALUE
FDI Pre- NIPC	11.6
FDI Post-NIPC	342.2
Combined	176.9
Difference	-330.6
Diff = 0	0.0000
Diff > 0	1.0000
T	-5.0364**

Significant at 10% (*); 5% (**); 1% (***)

Source: Author's Computation, (2010).